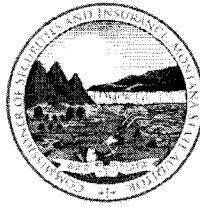


COMMISSIONER OF SECURITIES & INSURANCE

MONICA J. LINDEEN
COMMISSIONER



OFFICE OF THE MONTANA
STATE AUDITOR

ECONOMIC AFFAIRS IC June 11, 2012 EXHIBIT 12

2011 Commercial (Type II) Market:

Number of Insurers that wrote workers compensation insurance	150
Total premium written by commercial insurers	\$106.5 million
Average premium per insurer	\$6,700
Number of insurers writing more than \$1 million	22
Number of insurers writing more than \$5 million	2
Number of insurers writing more than \$10million	1

Top Commercial Writers:	Premiums Written	Risk Based Capital
Liberty NW	\$30.5 million	3,165%
Zurich	5.1 million	394%
Victory (MT Domestic)	4.8 million	565%
Employers Preferred	3.5 million	1,040%
2011 Montana State Fund	\$173.2 million	592%

Risk Based Capital (RBC): The Legislative Audit Report repeats the language of Mont. Code Ann. §39-71-2330, which reads: "Rates must be set an amount sufficient, when invested, to carry the estimated cost of all claims to maturity, to meet the reasonable expenses of conducting the business of the state fund, and to amass and maintain an excess of surplus over the amount produced by the national association of insurance commissioners risk-based capital requirements for a casualty insurer." The RBC number produced by the NAIC formula is the authorized control level, which is the level at which the commissioner of insurance is authorized to take control of the insurer. The authorized control level of the Montana State Fund is \$50,064,851.

Recommendations: Amend Mont. Code Ann. §39-37-2330 to require a specific risk based capital level greater than the authorized control level.

Risk Based Capital levels per Mont. Code Ann. §33-2-part 19:

>200%	No Action
≥150% to ≤200%	Company Action
≥100% to ≤150%	Regulatory Action
≥70% to ≤100%	Authorized Control
<70%	Mandatory Control

Highlights of State Financial Regulation of Commercial Insurers

- Standardization among states through the National Association of Insurance Commissioners (NAIC) accreditation program.
- Quarterly reporting and ongoing analysis.
- Risk Focused exams conducted by examiners with specific insurance experience and credentials. Emphasis is on identifying prospective risk and developing a regulatory plan to monitor that risk.
- Exams conducted as required, but no less than once every 5 years.